

## **Iowa Joint Utilities Management Program (IJUMP)**

### **Summary**

IJUMP was not “an investment that didn’t pan out,” as some have characterized it. In fact, it was one of the most successful ventures IASB has been involved in both for establishing a competitive environment for schools where none existed originally, providing good services to schools over those years, providing consolidated billing and payments to increase efficiencies in schools, and financially for the IASB enterprise as the program brought in approximately \$120,000 to \$220,000 annually over those 10 years to fund other IASB programs and services. IASB successfully made more in revenue than it spent on the program, and continues to get small sponsorship fees that are expected to total about \$120,000 for the next eight years.

The sale to Seminole Energy Services ensured a continued competitive environment in Iowa to keep costs competitive for schools, ensured the schools would continue to receive at least as good of a deal under SES and they would have under IJUMP, and eliminated all business risk to IASB. It is also a good example of a time where IASB no longer was needed for schools to get what they needed, so IASB exited the marketplace.

### **IJUMP Origins**

IASB originally started the IJUMP program in 1997 because there was no competitive option for schools in the marketplace. Schools had to purchase their natural gas to heat their buildings from their local utility (MidAmerican, Alliant, Aquila, etc.) at the market price and had no protections against price spikes, which often occurred if it was an unusually cold winter. The Iowa Utilities Board (IUB) allowed IASB/IJUMP to operate as a pilot project to sell natural gas to schools and other nonprofit or government institutions. The program was reviewed and extended multiple times by the IUB and operated that way for about 10 years. It helped schools and was successful for IASB, which received a sponsorship fee.

The IJUMP program was originally established in 1997 with a \$350,000 revolving loan fund from the Iowa Department of Natural Resources “for public schools in Iowa to provide, but not be limited to, temporary financing for energy studies and associated costs related to direct energy purchase infrastructure improvements.” The contract was with IASB originally. IJUMP, Inc. was established in May 2001 and had its own governing board. The loan agreement was then transferred from IASB to IJUMP effective July 1, 2001. The \$350,000 loan was fully repaid to the DNR during the 2007-08 fiscal year.

### **Underbilling Issue**

During the 2004-05 fiscal year, IJUMP had an agreement with WPS Energy Services (now Integrys Energy) out of Wisconsin. They were responsible for nominating the gas to the appropriate delivery points throughout Iowa, pricing the commodity taking into account the futures purchases, and doing the actual billing to the customers. As we ended the 2004-05 fiscal year, we had a loss but knew we shouldn’t have a loss unless the commodity was priced inaccurately. WPS and IASB staff spent a good deal of time analyzing what occurred to lead to our loss. It was determined individually and collectively that WPS priced the gas lower than IJUMP’s costs. Essentially, IJUMP didn’t charge the schools for all the gas they used. The net loss on the underbilling was approximately \$725,900.

IJUMP brought the pricing and billing services in-house effective Dec 2006 (through LGS) as a result of these issues and wanting to get a better handle on the pricing. The board decided to work to recover fees

through marketing up future gas and bringing services in-house to better manage the pricing issues. The IJUMP customer base was very consistent from year to year so it seemed to make sense to recover it through future billings rather than sending out an assessment or spending money on litigation with WPS.

### **Sale of IJUMP**

Effective April 2008, the IUB made a significant change to the tariff. The IUB ordered that the tariff be extended permanently to all non-residential consumers and not be limited to just schools. Additionally, they ruled that the approved providers should be expanded to include any qualified Certified Natural Gas Providers (CNGPs) to sell gas to any non-residential consumer. So, essentially, any organization that was or became a CNGP could start selling gas to hospitals, churches, banks, office buildings, etc. This left IJUMP in a dilemma. The current program served about 2/3 of the potential marketplace of schools and nonprofits in Iowa. Once the tariff changed, the marketplace expanded significantly. The expanded marketplace would most certainly increase competition in the state, which would require additional marketing resources, lines of credit, etc. by IJUMP, Inc. IJUMP had to either expand significantly, or create a plan for exiting the marketplace. The IJUMP board had multiple conversations about this, including how the entity fit into IASB's work with schools, and determined it best to start shopping for a successful sale.

IJUMP hired Louie Ervin, of Latham & Associated, to search for a suitable buyer for the program. Seminole Energy Services was presented to IJUMP and the negotiations began.

The elements identified for a successful deal included:

- Must Receive "*What It's Worth*"
- Treatment of Schools
  - How - at least as good as they are now.
  - How long – at least through the longest contract term.
  - After that – Make sure there's adequate competition.
- IJUMP Inc.
  - Need to at least pay all obligations (approximately \$1.0 million).
  - Eliminate all future risk.
- IASB Enterprise (IASB/LGS/IJUMP Inc.)
  - Retain revenue stream for a reasonable amount of time.
  - Eliminate substantially all business risk beyond the revenue stream.

A presentation was made to the IJUMP board on September 19, 2008 regarding the sale to Seminole Energy Services.

The purchase agreement approved was for the following:

- \$1,070,000 in cash
- 5 cents per MMBTU to IASB for sponsorship, paid for at least 8 years (approximately \$120,000 annually depending on usage and number of customers).
- SES is prohibited from raising the mark-up (profit) earned on the commodity for at least four years (schools protected from increase profits to SES)

The Net Present Value as presented on 9/19/2008:

- Prior to brokerage payment - \$1.8 million
- Net of brokerage payment - \$1.7 million
- Provides sufficient IASB cash flow for long enough to re-invest, create new services, or reduce costs

After the sale of substantially all of its assets, IJUMP filed Articles of Dissolution during June 2009. When the final accounting for the IJUMP entity was done upon dissolution of the entity in June 2009, IJUMP was short about \$45,000. According to IJUMP's bylaws, all of the assets or liability of the IJUMP entity are transferred to IASB upon dissolution. Therefore, IASB cleared up the outstanding items as a contribution to IJUMP effective 6/30/2009. This is eliminated in the consolidated financial reports at year end.

However, during the fiscal year ended 6/30/2009, the IJUMP program generated \$238,017 to IASB/LGS. LGS received \$150,000 for the billing software and \$56,316 for administrative fees. IASB received the remainder for sponsorship fees, interest on a cash flow loan, and legal fees.

Today, IASB continues to receive a sponsorship fee (approximately \$120,000 per year) for the program, as outlined in the sale. In addition, numerous schools continue to participate and have expressed appreciation for the program.